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TAGS: [ECON](#) [PGOV](#) [ETRD](#) [EINV](#) [EAGR](#) [VE](#)  
SUBJECT: VENEZUELA'S RICE INDUSTRY THREATENED FOR POLITICAL GAIN

Classified By: Randall Hager, Agricultural Attache, for reasons 1.4  
(b) and (d)

¶1. (C) SUMMARY: President Chavez announced on February 28, that the government would intervene in the domestic rice processing industry, ostensibly to stop millers from contravening its food price control policy. The Venezuelan National Guard occupied one of the plants on February 27 - the day before Chavez's announcement. The announcement also violates the government's February 12 decree mandating a 90-day period for industry consultations. The government purchases the vast majority of domestically produced rice and has also been aggressively importing US rice. To bolster its standing as a defender of the poor, the government has become the best source of staple foods through its chain of stores offering price-controlled products. Chavez seems to be stepping up his pressure on industry "oligarchs" to keep food prices unsustainably low. END SUMMARY.

¶2. (C) On February 28, President Chavez announced that the government of the Bolivarian Republic of Venezuela (GBRV) would intervene in Venezuela's rice processing industry, claiming a need to stop the industry from "messing" with the government and the people by creating derivative products that fall outside of price control regulations. Several leading plants have been or are in the process of being, occupied or monitored by the National Guard in the name of public welfare. Government officials indicate the National Guard presence may continue for 90 days. (NOTE: Several occupied plants mill government-imported rice under tolling agreements and package it under the CASA/MERCAL label for government-run, price-controlled stores. Any operational slowdown will paradoxically reduce stocks on government shelves for the lower income classes. END NOTE.)

¶3. (C) Industry reaction has been swift and pointed, with commentators lamenting the need and legality of the government action, and expressing concern about rice availability in the medium and long term. According to Tulio Burgos (protect), President of the Guarico Rice Farmers Association, government intervention in the industry has the potential to reduce domestic rice output even further, as farmers consider switching to more profitable crops. (NOTE: Domestic rice production has been under pressure for several years; controlled farm gate prices and rising input costs have forced farmers to plant alternatives. The gap between production and increasing demand results in greater imports, mostly from the United States. END NOTE.)

¶4. (C) As always, businesses under controlled-price regimes demonstrate creativity in avoiding the controls. Noting that the consumer defense law only applies price controls to base products such as plain white rice, processors developed flavored or premium rice products. These new products fell outside of government price regulations and allowed the industry to charge a true market price. To close this loophole, the government issued a new decree on February 12, 2009, to include any food derived from base products, and to

allow the government essentially to mandate the percentages of basic and derivative products sold. (NOTE: According to the Rice Processors Association, millers were following the regulations as they stood, but the government jumped the gun by its recent intervention before implementation parameters had been settled. END NOTE.)

15. (SBU) Carlos Osorio, the GBRV Director of Silos and Storage, said at a March 2 press conference that the government has no intention of taking over any company, rather it is complying with its "revolutionary duty" to ensure citizens' basic food supplies. Osorio noted that while there was no written agreement, leading rice processors were violating the verbal understanding they reached with the government late last year. The processors, he said, agreed to manufacture 80-90 percent of rice as a basic product at regulated prices, and only 10-20 percent outside regulation.

16. (C) Guillermo Bolinga, (protect) legal director for leading food processor Alimentos Polar, said that the President's intervention was premature. He did not wait the 90 days stipulated in the February 12 decree for industry consultations on resolving production quota issues. Although Osorio took a softer approach, other BRV officials, including Chavez himself, have said that the government could take severe measures up to "expropriation" paid for by "paper" (i.e., Venezuelan government bonds) not "real money." Although Polar represents a smaller market share, about six percent to leading rice processor Arroz Mary's 24 percent, many believe that the government's real target is Polar. The Mendoza family, the owners of Polar, are staunchly in opposition to the Chavez administration. Industry contacts suggest the government would love to nationalize the company if it could figure out how to run Polar's extensive operations without severely reducing the food supply during the transition.

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COMMENT  
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17. (C) Although the government has pressured various agricultural enterprises by harsh words and constant inspections over the years, this action is more serious. For the first time, Chavez has involved the military, sending it to operational headquarters with a threat to hold plants for 90 days. If the government believes a plant is not complying with its wishes, it may replace upper management. In past interventions, government officials have installed their cronies in key positions, dramatically reducing technical know how in complicated plant operations. Such actions could result in lower domestic rice output and greater government market control. The effect on US food exports may be positive, however, as the GBRV will still need to maintain its social contract with the poor.

18. (C) In light of Venezuela's looming financial crisis, some analysts hoped Chavez would be more willing to work with the private sector following his victory in the February referendum abolishing term limits. However, sending in the National Guard and threatening to "expropriate" plants in the agricultural sector suggests Chavez has instead opted for confrontation rather than conciliation.

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